

Don't Abandon Successful Welfare Reforms

W by Sylvia LeRoy

elfare reform can rightly be considered Ontario's single greatest social policy success of the past decade. This success could be jeopardized if the provincial government heeds the recommendations submitted in a report by MPP Deb Matthews in late December (Matthews, 2004). The Matthews Report advises Ontario to roll back many of the province's 1995 reforms. Can it be that Ontario has already forgotten the tragic effects of "soft love" welfare policies on its most vulnerable citizens?

Between 1985 and 1994, Ontario adopted a series of policies intended to instill "fairness" and "equity" in the welfare system. For instance, Ontario relaxed eligibility rules to allow each person in a common law couple the ability to collect the higher benefits of a single person, and provided automatic interim aid to anyone appealing a denial, cancellation, or reduction of benefits. Benefit rates were also boosted to levels well above the national average.

Not surprisingly, welfare expenditures rose a stunning 232 percent from 1985 to 1994—and that is after adjusting for the effects of inflation (Sabatini, 1996; Ontario Ministry of Finance, 1995). Most troubling, the number of welfare beneficiaries as a percentage of the Ontario population more than doubled, from 5.2 percent to 12.7 percent. Dependency also increased as an unemployed adult's average stay on social assistance rose from 6.5 months in 1987 to 12.5 months in 1994. The dependency of single parents was even worse, with the average time spent on welfare rising from 36 to 55 months (Sabatini, 1996).

Faced with record social assistance spending and high rates of welfare dependency, in 1995 the Ontario government took advantage of new flexibility afforded it by the federal government to introduce the country's first work-for-welfare program. Mandatory work requirements coupled with sanctions for non-compliance have encouraged recipients make a quick transition back to work while diverting others from getting trapped in the welfare system to begin with. Tightened eligibility rules, reduced benefits (still 10 percent above the national average), and tough fraud

prevention measures also helped make work pay more than welfare.

The significance of this new employment focus should not be understated. The chance that an individual will become a repeat user of welfare increases with the receipt of their first social assistance cheque (see Blank and Ruggles, 1994; Cao, 1996; Meyer and Cancian, 1996). "Workfare" reduces this dependency by making welfare less attractive for potential applicants, helping current recipients develop marketable job skills in the process.

It's hard to argue with the evidence. More than 680,000 Ontarians have since left the welfare rolls, reducing social assistance expenditures by 42 percent. These welfare recipients have moved largely into employment, not into poverty and homelessness as many activists had warned. Exit surveys conducted by the province in 1996 and 1998 found that approximately two thirds of all welfare leavers were working at the time of the survey, compared to just 18 percent of people leaving welfare in 1994/95 and 7 percent of welfare leavers in 1989/90 (Levy-Coughlin Partnership, 1996; Ekos Research Associates Inc., 1998; JobLink Ontario, 1995). Those not working cited changes in living arrangements or the receipt of additional income as their main reason for leaving.

Circumstances have improved even more markedly for single mothers and children. The number of single parents on welfare fell from 200,000 to 82,000, a remarkable 59 percent reduction from the 1994 high. The duration of welfare spells has also shortened, with the average single parent remaining on welfare for 25 months in 2000, down from 55 months in 1994.

More importantly, the incidence of low income also fell during this period. The



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Society's Welfare

prevalence of Ontario's children living in low-income families dropped from a high of 15.5 percent in 1996 to a record low of 9.5 percent in 2002. Twenty-seven percent fewer single mother families now experience the insecurity of low income, as defined by Statistics Canada. Although the income of single mother families declined in 2002, the annual average increase of market income for these families was still 3.1 percent between 1996 and 2002, among the strongest gains of all family types due to the increased employment of single mothers (Statistics Canada, 2004).

Despite the general success of Ontario's 1995 reforms, the province's welfare dependency rate is still the fifth highest among Canadian provinces and US states (see figure 1). This suggests that Ontario's 1995 reforms were limited to undoing some of the damage caused by the policies adopted between 1985 and 1994. Ontario must now build on these successes, applying reform principles from other Canadian provinces and US states that have been proven to play a role in reducing dependency, increasing employment and earnings, and lowering poverty rates.

Unfortunately, Matthews' recommendations come at the end of a year that has already seen the Ontario government begin to roll back several of the province's most successful reforms. Last January tough sanctions against individuals convicted of welfare fraud were repealed, and this September the government loos-

ened welfare eligibility requirements to let each individual living in a common-law relationship collect the higher benefits a single person.

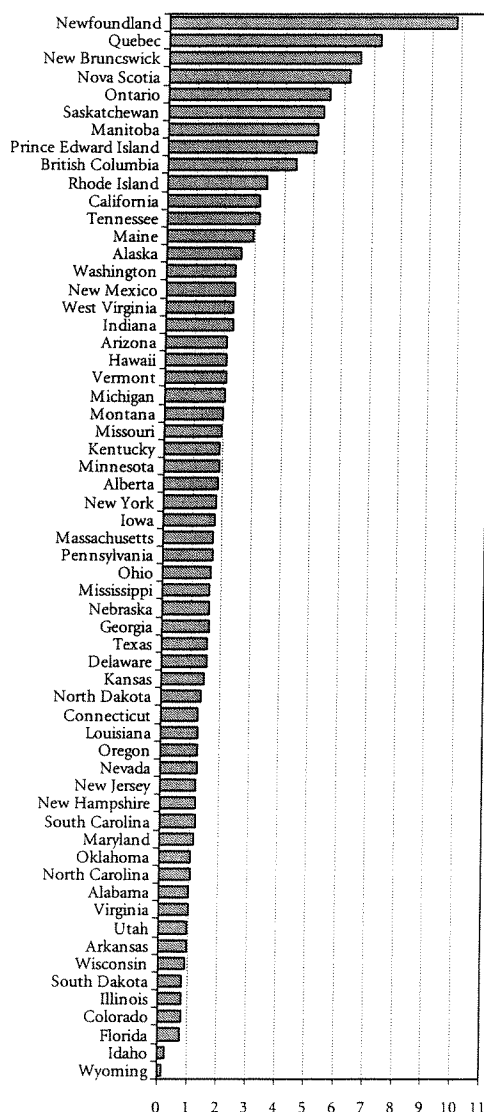
The new Ontario policy direction may at first seem compassionate and humane, but the empirical evidence

suggests it will trap a new generation of citizens in welfare and poverty.

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Figure 1: Welfare Recipients as a Percentage of the Population in Canadian Provinces and US States in 2003



Welfare

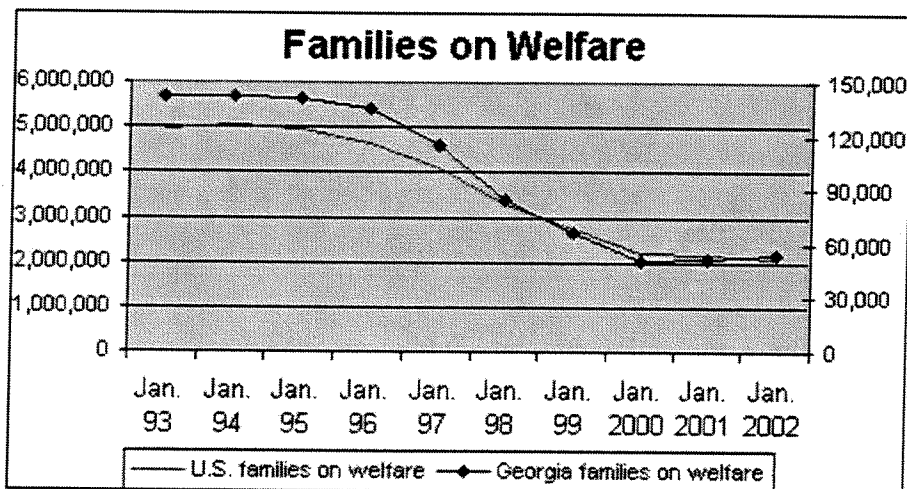
Agenda

- Reduce unnecessary new entries to welfare rolls and strengthen work requirements
- Strengthen support services through reinvestment of savings
- Minimize “returns” to welfare
- Focus on aiding hardship cases
- Encourage public-private partnerships
- Remove barriers to entrepreneurship
- Eliminate disincentives to family building
- Discourage children born outside of wedlock

Facts

- The number of Georgia families on welfare has decreased since 1993. In January 1993, there were 142,040 families on welfare. In June 2003, there were 55,234 families. That is a decrease of 61 percent, and is slightly higher than the 59 percent decrease in the national average over the same period.¹

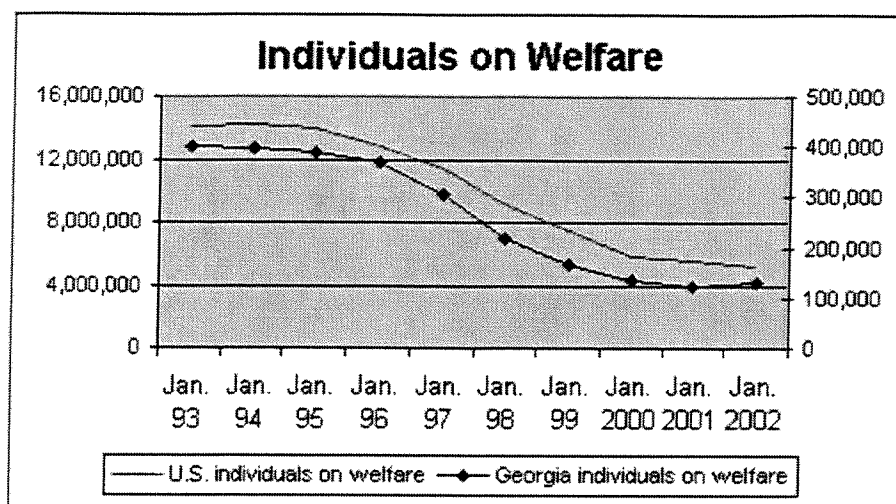
- The majority of that decrease came after Congress passed welfare legislation. From January 1996 until June 2003, Georgia family recipients decreased from 135,274 to 55,234. That means 92 percent of families that left welfare left after legislation was passed.²



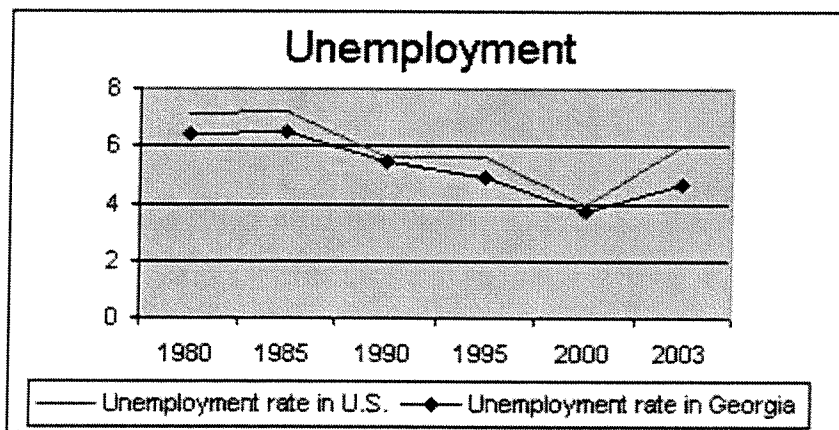
- The number of Georgia individuals on welfare has decreased 67 percent since 1993. In January 1993, there were 402,228 individuals receiving welfare in Georgia. But in June 2003, there were 131,349. Again, this is higher than the national average of 65 percent for the same period.³
- As with the families, the majority of individuals who left welfare did so after Congress' 1996 legislation. In January 1996, there were 367,656 Georgians on welfare. In June 2003, there were only 131,349. That means 87 percent of those who left welfare did so after legislation reform was passed.⁴
- In October 2002, Georgia's unemployment rate was 5.3 percent. The national average was 5.8 percent. In October 2003, Georgia's unemployment rate had fallen to 4.2 percent with a national average of 6 percent. In June 2004, however, Georgia's unemployment rate fell to 3.8 percent, which was well below the national average of 5.6 percent. The unemployment rate in September 2004 was 4.4 percent, below the national average of 5.4 percent.⁵
- Each dollar of extra welfare given to low-income persons reduces their labor and earnings by an average of 80 cents.⁶

Overview

In the fall of 1996, after investing nearly \$7 trillion and 30 years on what has been labeled a “War on Poverty,” our federal government made significant strides toward reforming welfare. During this first phase of welfare



reform, a decades-old cash assistance program was eliminated (Assistance for Families with Dependent Children), and in its place was created a block grant program known as Temporary Assistance for Needy Families (TANF). It is important to note that welfare reform really affected only one federal program, AFDC, and left the other 75-plus federal welfare programs substantially unchanged.⁷



In short, these initial changes allowed states to individually tailor and administer their own welfare reform initiatives. At the same time, the changes made unlimited federal funds a thing of the past and held states accountable for reducing their rolls and placing welfare recipients in permanent jobs. By creating an administrative framework that hinged

state funding levels on the attainment of certain standards, the federal government took the first real step toward ending the cycle of lifelong intergenerational dependency.⁸

Perhaps even more significantly, the 1996 law was a departure in ideals as much as in practice. No longer do states have a financial incentive to increase their welfare rolls in order to receive more federal dollars, nor are recipients encouraged to forego work and marriage in favor of government assistance. Moreover, states are given the freedom to craft their welfare programs as they see fit. This freedom has translated to smaller welfare rolls and less dependency on government.

With the debate to reauthorize the 1996 law delayed, welfare reform is at a crossroads. The “second phase” of welfare reform will be discussed in a different political and economic environment than the first phase. The recent downturn in the economy was coupled with an increase in unemployment rates and an uptick in welfare rolls. On the other hand, policy-makers now have hard data showing that work requirements have been successful and are effective in decreasing the number of welfare recipients while at the same time developing self-sufficiency. Lawmakers must ask, “Where does welfare reform go from here?”

Historical background on welfare

Historically, periods of economic growth have not resulted in smaller welfare caseloads. Modest increases in

AFDC caseloads occurred during some, but not all, periods of economic recession. By contrast, while there were eight periods of economic expansion prior to the 1990s, not one of these growth periods resulted in any substantial decrease in AFDC caseloads. In fact, previous economic booms coincided either with relatively flat caseloads or with substantial caseload growth (during the late 1960s and early 1970s).⁹ Furthermore, the data shows that declines in state caseloads are closely tied to the timing and stringency of work requirements, not the health of their economies.

The rate of caseload decline has varied enormously among the 50 states. If the economy is truly the main factor driving caseloads down, then the variations in state reduction rates should be linked to variations in state economic conditions. On the other hand, if welfare policies are the key factors behind decreasing dependence, then the differences in reduction rates should be linked to specific state welfare policies. The facts show that differences in state welfare policies specifically, stringency of sanctions and timing of work requirements more accurately explain rapid rates of caseload reduction. By contrast, the relative vigor of state economies, as measured by unemployment rates, changes in unemployment or state job growth had no statistically significant effect on caseload reduction, thus supporting the conclusion that policy reform, not economics, has been the principal engine driving the reduction in dependence.

Critics may charge that it is easy to cut caseloads simply by kicking individuals off welfare whenever they commit a minor infraction. In reality, very little of the present caseload reduction is the result of states using sanctions simply to remove individuals from the rolls. Instead, serious work requirements sharply reduce dependence because they reduce the attractiveness of welfare compared to private-sector employment.¹⁰

Agenda

While the majority of welfare reform must necessarily take place at the federal level, several steps can be taken in Georgia:

Reduce unnecessary new entries to welfare rolls and strengthen work requirements

First and foremost, Georgia must focus on strengthening its education system and economic base to offer its citizens the best opportunity to be financially independent as adults. Coupled with providing educational and economic opportunities on the front end, Georgia's policy-makers should also ensure that our welfare programs comply with, support and complement the work requirements found in federal law.

As we have seen nationwide and in Georgia, the number of welfare recipients can be drastically reduced by following two simple guidelines: (1) reducing the number of new welfare recipients by identifying and overcoming obstacles that stand in the path of these individuals and (2) implementing tough work requirements that not only serve as good work experience for welfare recipients, but also render it unnecessary to apply for welfare benefits.

New federal work requirements have encouraged states to implement work, job search and training programs, which have greatly reduced AFDC/TANF caseloads in Georgia.¹¹ As an extension of this philosophy, all state programs, to the extent allowed by law, should require work, job search or training programs in exchange for public assistance. The facts have shown that programs based on a "work first" philosophy have effectively moved individuals and families from government reliance to self-sufficiency. Overall, a shift in thinking from an entitlement mentality to a "work first" philosophy should be reinforced and strengthened throughout the state welfare system.

Strengthen support services through reinvestment of savings

Georgia has been one of the few states to reinvest welfare savings to strengthen support services such as transportation, substance abuse, childcare and literacy programs that help recipients become independent.

Oftentimes, people do not have a lack of desire to work or attend classes or job training programs; rather, outside factors limit their ability to do so. In the past, Georgia's policy-makers have recognized the need for these services, and going forward, they should continue to strengthen these programs with money reinvested from welfare savings.

One of the major hurdles that recipients often face is an inability to get to their place of employment, class or job training program. To address this issue, policy-makers should broaden currently existing programs that provide transportation to recipients who are meeting the requirements of the welfare law. Such a system could feature a user subsidy, with the administering agency (i.e., Family and Children Services) issuing vouchers similar in concept to those used in public housing. Low-income users would pay the regular passenger fare, supplemented with the voucher, which private providers, such as taxi companies, vanpool services or public transportation organizations would present to the administering agency.¹² In addition, the agency could establish partnerships with certain private providers to reduce fares for those meeting TANF program requirements. This ideally would be a transitional program that would be used only so long as necessary to obtain sufficient resources to purchase an automobile or pay regular public transportation fares.¹³ It would be less expensive to provide transportation to individuals wanting to work or who are learning new skills than to have them remain on welfare rolls with no short-term prospects for leaving public assistance.

Minimize "returns" to welfare

Success in the welfare reform arena must be defined not only by how many individuals and families are removed from the welfare rolls but also by gauging how many return to welfare down the road. With education and job training, Georgians who were once on welfare will be in better positions to weather tough economic times and find work in the event of layoffs. Learning marketable skills, through either public or private job programs, is essential to remaining off public assistance and maintaining self-sufficiency. Georgia's policy-makers can minimize returns to welfare by encouraging education and job training as a part of any state welfare program and by supporting federal work requirements.

Focus on aiding hardship cases

As Georgia's rolls continue to decline, those who remain on welfare will likely be the most difficult to employ – the so-called "hard core" recipients. These individuals include those with physical and psychological problems and drug and alcohol addictions. The challenge with assisting this group of recipients is magnified by the fact that Georgia has set a 48-month time limit on receiving TANF funds. The clock continues to run down on individuals who are receiving assistance, and once the 48-month time limit expires, these individuals will no longer be eligible for TANF assistance (however, they may receive up to four three-month extensions).¹⁴ Although the state is eligible to exempt from the 48-month limit up to 20 percent of those on its welfare rolls, it is vital to teach or train all recipients, including those hardship cases, in a skill or trade that will make them employable and self-sufficient.

Georgia's ability to continue to develop innovative strategies for assisting these individuals, keeping in mind that there is no one-size-fits-all solution, will be the key to success for both the individuals and the system. Policy-makers would be wise to capitalize on both public and private workforce training programs that are currently in existence.

Encourage public-private partnerships

Private welfare, or charity, has historically been one of the most cost-efficient and effective means of assisting society's neediest members, and Georgia must continue to establish partnerships with the private sector whenever possible. Many opponents of welfare reform argue that insufficient training prohibits welfare recipients from finding and keeping full-time jobs and from obtaining higher-paying jobs. Firms that specialize in job placement for welfare recipients, like America Works, report that what employees lack is not job training

but the life skills necessary to succeed in the workplace, such as dressing appropriately, arriving to work on time and understanding the importance of customer service.

In fact, a study by University of Chicago economist James Heckman found that young men who went through the federal government's Job Training Partnership program actually earned less afterwards than those who didn't. But, according to the United States Department of Labor, the \$55 billion a year the private sector spends on job training pays dividends in the form of 26 percent to 33 percent higher pay to the beneficiaries of private training.

In acknowledgment of the long history and success of many charitable and religious organizations in providing society's most destitute members with needed services, Congress inserted the charitable choice provision into the 1996 Welfare Reform Act. This provision allows organizations that are faith-based or religious in nature to accept federally funded vouchers or certificates without "impairing the religious freedom of beneficiaries of assistance." Under the old law, programs administered by these groups were required to be nonreligious. Now, the only prohibition is that no federal funds may be expended for "sectarian worship, instruction, or proselytization."

Unfortunately, Georgia cannot take advantage of this opportunity because our Constitution prohibits public funding from being used by faith-based organizations. Organizations such as the Salvation Army, the Y.M.C.A. and the Easter Seals are discriminated against, regardless of their potential benefit to those they would serve, simply because they are faith-based. The Georgia Constitution's Blaine Amendment, as this provision is called, is even more stringent than the U.S. Constitution.

Fear of government's intervention in religion has kept the Blaine Amendment in place, yet bringing the Georgia Constitution in sync with the U.S. Constitution would place any such conflicts under the rule of the U.S. Supreme Court.

Further, these potential partnerships have proved beneficial to those in desperate need in other states, while allowing the government to make sound financial decisions. In Shreveport, La., 90 churches help place people in jobs. The Payne Memorial Outreach Center in Baltimore, Md., an arm of an African Methodist Episcopal church, runs a job placement and training center under a contract with the state of Maryland. The United Community Center in Fort Worth, Texas, works with community churches to find jobs for people seeking independence from welfare. The Exodus Program in Cincinnati is a similar program.

Remove barriers to entrepreneurship

Entrepreneurship is the thrust behind Georgia's economy. In fact, small businesses with less than 10 employees account for 76 percent of all Georgia companies. In 2000, small businesses with fewer than 500 employees made up 97.5 percent of businesses. Between 1992 and 1996, small businesses with more than 20 employees created 55.5 percent of the net new jobs in Georgia. In Atlanta, small business makes up 90 percent of all businesses.¹⁵

The small-business owner and prospective entrepreneur must comply with numerous local, state and federal regulations. In order to assist business owners with the burden of regulatory details, the secretary of state's office established the First Stop Business Information Center (FSBIC).¹⁶ The Center facilitates sustainable small-business development in Georgia by offering a central location for determination of what licenses and permits must be obtained and maintained by individuals and businesses conducting their enterprises in Georgia.

Entrepreneurship provides welfare recipients who already possess marketable skills with a wonderful opportunity. In addition, a thriving small-business sector provides many job opportunities for former welfare recipients. The state, as well as local governments, should do everything possible to encourage small-business creation and entrepreneurship.

For more information on ways to open the market to new participants, see the Foundation study released in conjunction with the Reason Public Policy Institute, "Giving a Leg Up to Bootstrap Entrepreneurship: Expanding Economic Opportunity in America's Urban Centers" and the Foundation's Commentary, "Taxi Regulations – Roadblock to Success."

Eliminate disincentives to family building

Studies have shown that two-parent families are less likely to be on welfare than single-parent families.¹⁷ Unfortunately, traditional welfare programs have rewarded nonwork and nonmarriage. Historically, a single mother has had a contract with the government that provided that she would continue to receive her benefits so long as she fulfilled two conditions: She must not work and she must not marry an employed male.¹⁸ Common sense dictates that this is wrong.

The conventional welfare system provided heavy incentives for individuals to work less or to leave the labor force entirely and to rely on taxpayers for support. Even worse, it made marriage economically irrational for most low-income parents; it converted the low-income working husband from a necessary breadwinner into a net financial handicap and transformed marriage from a legal institution designed to protect and nurture children into an institution that financially penalized nearly all low-income parents who entered into it.¹⁹

Georgia's policy-makers must ensure that the state's welfare policies and programs do not penalize or create disincentives for marriage. Generally speaking, welfare programs have penalized marriage through the inherent design of all means-tested (i.e., income-based) programs, which reduce benefits as non-welfare income increases. Thus, under any means-tested system, a mother will receive greater benefits if she remains single than if she is married to a working husband. Welfare further penalizes marriage because a low-income couple will experience a significant drop in combined income if they marry. For example, after marriage, a working husband's earnings will be counted against his wife's welfare eligibility; their incomes will be combined and counted together. Thus, welfare benefits will be eliminated or cut dramatically post-marriage, and their combined income will fall substantially.²⁰

Policy-makers must ensure that remaining on welfare is not more economically attractive than being married and a member of the workforce. Any disincentives or penalties for marriage should be removed from state public assistance programs.

Discourage children born outside of wedlock

For years our welfare system destroyed homes by denying assistance to most two-parent families. As a result, the number of children born outside of marriage has increased drastically over the last several decades. Studies show that child poverty rates are dramatically higher for an out-of-wedlock child. In addition, children born out-of-wedlock spend significantly more time during their lives on welfare than children born within wedlock.²¹

According to the Heritage Foundation, 12 of every 100 children born entered a broken family in 1950. Today, nearly one-third of all American children are born outside of marriage, which translates to one out-of-wedlock birth every 35 seconds. In 2002, 34 percent of children were born to unmarried mothers.²² More than half of the nation's children will spend all or part of their childhood in never-formed or broken families. In 2002, 37.8 percent of all children born in Georgia were to unwed mothers.²³ Clearly, to successfully address the problem of illegitimacy, Georgia must work to eliminate disincentives to and penalties for marriage.

Endnotes

1. The Administration for Families and Children, U.S. Department of Health and Human Services.
2. Ibid.
3. Ibid.
4. Ibid.
5. Georgia Department of Labor.
6. The Heritage Foundation, Issues 2004, Welfare Reform.
7. Issues 2000: The Candidate's Briefing Book, Welfare, The Heritage Foundation.
8. Ibid.
9. Ibid.
10. Ibid.
11. Robert Rector, "Implementing Welfare Reform and Restoring Marriage," The Heritage Foundation; U.S. Department of Health & Human Services Administration for Children and Families, April 2002.
12. Wendell Cox, "A Common Sense Approach to Transportation in the Atlanta Region," Georgia Public Policy Foundation (2000).
13. Ibid.
14. Even if TANF funds are no longer available to an individual because of the expiration of the 48-month time limit, more than 75 other federal programs still exist to provide that individual assistance. In addition, a recipient may receive TANF beyond 60 months (which includes the four three-month extensions) so long as they are complying with the work requirements found in the law.
15. Small Business Administration, Office of Advocacy - http://www.sba.gov/ADVO/stats/us88_96.pdf and http://www.sba.gov/ADVO/stats/st95_96.pdf (based on 1996 data), Georgia Small Business State Profile, 1998 - <http://www.sba.gov/advo/stats/profiles/98ga.pdf>.
16. <http://www.sos.state.ga.us/firststop/default.htm>.
17. Robert Rector, "Issues 2000: The Candidate's Briefing Book," Welfare, The Heritage Foundation.
18. Robert Rector, "Issues 2002: The Candidate's Briefing Book," Welfare, The Heritage Foundation.
19. Ibid.
20. Ibid.
21. "Issues 2000: The Candidate's Briefing Book, Welfare."
22. National Center for Health Statistics.
23. Ibid.

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